श्री जसवंत सिंह: सभापति जी, एक तो मैं माननीय सदस्य एस एस अहलुवालिया को आश्वस्त कर दूं कि अकेले में मुझे कुछ नहीं करना है। जो कुछ करना है सब के साथ करना है । दूसरे मैं माननीय सदस्य श्री संजय जी से निवेदन करूंगा कि कोई ऐसी बात नहीं है कि जो मैं आप से व्यक्तिगत तौर पर छुपाना चाहता हूं या सदन से छुपाना चाहता हूं। यह अवश्य है कि काम के साथ जुड़े हुए कुछ आग्रह हैं। उन आग्रहों से ऊपर मैं नहीं जा सकता हूं। ये आग्रह आज के नहीं हैं। एक प्रकार की पद्धति बनी हुई है। आपने अभी कुछ कहा कि इस प्रकार से जैसे रिजर्व बैंक की सूचना है, उसके विपरीत कुछ काम हो रहा है। आप निश्चित मानिए, जब आप सदन में ऐसा कह चुके हैं तो निश्चित रूप से उस पर उचित कार्यवाही होगी।

Rate of interest on finance provided to exporters

*395. SHRI RAMA MUNI REDDY SIRIGIREDDY†† :
SHRI K. RAMA MOHANA RAO:

Will the Minister of FINANCE be pleased to state:

(a) the rate of interest charged on finance provided to exporters by various financial institutions;

(b) whether it is a fact that the rate of interest is much higher as compared to those is other countries of the world;

(c) if so, the reasons therefor;

(d) what steps Government are taking or propose to take to reduce the rate of interest;

(e) whether any proposal in this connection has been submitted to the Ministry of Finance; and

(f) if so, the response thereto?

THE FINANCE MINISTER (SHRI JASWANT SINGH): (a) to (f) A Statement is placed on the Table of the House.

†† The question was actually asked on the floor of the House by Shri Rama Muni Reddy Srigireddy.

Statement

(a)(i) **Export Credit Interest Rates prescribed by the Reserve Bank of India.**

The Export—Import Bank of India has reported that the export credit interest rates applicable for Indian exporters are as follows:

Pre-shipment credit (Rupees)	**Interest Rate not exceeding**	**Post-shipment Credit (Rupee)**	**Interest Rate not exceeding**
Upto 180 days	PLR minus 2.5%	For usance bills upto 90 days and demand bills	PLR minus 2.5%
Beyond 180 and upto 270 days	Banks are free to decide	For usance bills beyond 90 and upto 180 days from date of shipment	Banks are free to decide
Against incentives receivable from Government of India covered by ECGC guarantee upto 90 days	PLR minus 2.5%	Deferred Credit beyond 180 days	Banks are free to decide interest rate, keeping in view PLR and spread guidelines

Pre-shipment Credit(FC)	**Interest Rate not exceeding**	**Post-shipment Credit (FC)**	**Interest Rate not exceeding**
Upto 180 days	LIBOR+ 0.75%	For usance bills upto 180 days and demand bills	LIBOR+0.75%
Beyond 180 and upto 360 days	Above interest rate for period of upto 180 days at time of extension+ 2%	Export bills (demand or usance) realised after due date but upto date of crystallisation	Above interest rate plus 2%

Note: Interest Rate on FCNR(B), Deposits has been pegged at LIBOR minus 0.25%

(ii) **Interest Rates on Export Credits provided by Financial Institutions.**

EXIM Bank's Interest Rates on Export Credits

Interest rates on all export credit programmes are fixed by EXIM Bank on a case to case basis, depending on the merits of the transaction, and subject to the condition that interest rate will not be lower than the average cost of Rupee/Foreign Currency Funds, as the case may be with the exception that a lower rate may be considered in the absence of better alternative investment/lending options from the return point of view.

IFCI's Interest Rates on Export Credits

The Export oriented Units are sanctioned financial assistance by way of Rupee Term Loans carrying interest at Prime Lending Rate (Presently 12.50% p.a.) plus spread upto 3.50% p.a. depending upon risk in the Interest Rate Band of 12.50% p.a. to 16.00% p.a. as also Foreign Currency Loan carrying interest at LIBOR plus Maximum Spread upto 3.50% depending upon the risk.

IDBI's Interest Rates on Export Credits.

IDBI does not undertake export finance related activities. However, it provided assistance for setting up export oriented units or modernisation/ expansion/diversification of such units.

(b) and (c) Most EXIM Banks, with funding by their Governments, provide exclusive support to their national exports by extending credit at competitive costs ensuring that national exports do not suffer for want of competitive credit which is generally tied to OECD's (Organisation for Economic Cooperation and Development), a representative body of all industrialised countries consensus interest rate, called CIRR (Commercial Interest Reference Rate).

The banks are permitted to lend at such sub-PLR rates. Exporters can negotiate rates even below the Rupee Export Credit Interest Rates prescribed by the Reserve Bank of India. The Foreign Currency Ceiling Interest Rate at LIBOR plus 0.75 percentage points is internationally competitive.

(d) to (f) There are limitations to the policy of reducing ceiling rates on export credit as it could be viewed as interest rate subsidies to exporters under the WTO agreement on Subsidies and Countervailing Measures (SCM).

SHRI RAMA MUNI REDDY SIRIGIREDDY: Mr. Chairman, Sir, I would like to know from the hon. Minister whether it is not true that the Indian exporters are struggling to improve their competitive edge in terms of price as their counterparts in China, who are getting credit at the rate of 5 per cent, in Japan, the exporters are getting credit at the rate of 0.07 per cent and the US exporters are getting at the rate of 1.5 per cent whereas the Indian exporters are getting loans for exporting goods at the rate of 8 to 13 per cent of interest. Does this rate of interest on credit not hamper our exports? So, what steps the Ministry is proposed to take to reduce the rate of interest on credit for our exports and bring it at per with that of the other countries mentioned above?

SHRI JASWANT SINGH: Mr. Chairman, Sir, if I understand the thrust of the hon. Member's question, it is that in comparison to other countries, firstly, our exporters suffer from a debility of having to borrow at a higher rate of interest and therefore, his suggestion is that we should make export credit available on easier terms. If I have understood that correctly, Sir, this is what I would say in answer. Sir, the whole question of interest rates is a complex question. Whereas industries, manufacturers, legitimately and understandably, would want a lower interest regime so that they are able to access credit at a competitively lower price, citizens and the saving public would naturally want a higher interest regime so that their investments receive and are able to receive suitable returns. It is the correct balance that we have to strike in between these, taking into account also the prevailing international interest regime. So it is not possible that India be an island of peculiar interest regime outside of what the global trends are. So far as export credit and the interest rate on export credit are concerned, we have to follow the stipulation of PLR minus 2, which is the guideline at the present moment. The minute we deviate from it, we will in fact, be inviting the WTO restrictions on the subject. So, we cannot be promoting exports through subsidised interest rates and that is the difficulty.

SHRI RAMA MUNI REDDY SIRIGIREDDY: Sir, is it not true that the banks are enormously delaying the credit export remittances to the

accounts of exporters? If yes, will the Ministry think of putting a punitive clause that if a bank fails to remit the credit to the accounts of exporters within 24 hours of receiving it from the buyer, it will have to pay an interest of 24 per cent as a penalty, or are there already such norms?

SHRI JASWANT SINGH: Sir, the hon. Member has followed a written question by actually another written question. I am sorry, it is rather a long question. May I trouble him to please repeat it?

SHRI RAMA MUNI REDDY SIRIGIREDDY: Sir, banks are enormously delaying the credit export remittances to the accounts of exporters. If yes, will the Ministry think of putting a punitive clause that if a bank fails to remit the credit to the accounts of exporters within 24 hours after receiving it from the buyer? They are not paying within 24 hours even after receiving it from the buyer. My point is that the bank will have to pay an interest of 24 per cent as a penalty. Or, are there are already such norms? How is the Ministry ensuring remittances within 24 hours?

SHRI JASWANT SINGH: Sir, I might share with the hon. Member, and I am sure he will appreciate that a transaction between the customer and his/her bank is really a contractual arrangement. But outside the limits of that particular aspect of banking operation, what the hon. Member is suggesting and I think, there is a relevance to that once a bank receives credit from export earnings of an exporter and the bank should be promptly dispatching that credit into the exporter's account rather than retaining the credit for any length of time. Now, this is a legitimate concern, Sir, which keeps cropping up and it relates really to improving the functioning of the banks, reducing the transactional cost; and towards this, we have been consistently working...(Interruptions)...

SHRI K. RAM MOHANA RAO: Sir, it is good that the hon. Minister has given the export credit interest rates prescribed by the R.B.I. in his reply. But, according to the Mid-term Review of the Monetary and Credit Policy for 2002-03, the interest on 181 to 270 days for pre-shipment credit and 90-180 days for post-shipment credit will have to be made free, effective from 1st May, 2003. But, there is a rider to it and the rider is that the Boards of respective banks should approve this measure. So, I would like to know from the hon. minister as to how many Boards of the banks have so far approved this measure and what action the Ministry is taking if any Board of the bank fails to approve the same?

SHRI JASWANT SINGH: Sir, I must inform the hon. Member that the Ministry of Finance is certainly responsible for the banking sector, for banking as such. But, regarding interest rates, what interest rate a particular bank charges for a particular transaction is, in fact, not determined, any longer, by the Ministry of Finance, outside of the overall limit placed by the Reserve Bank, which the Reserve Bank very kindly does after consulting us. And, therefore, when the hon. Member suggested that you have advised the banks to have a particular regime, have the banks adhered to your advice and have Boards of Directors of those respective banks accepted that advice, or not accepted that advice. As I said this is all part of the overall administration, not independence, but certainly, relatively free from the day-to-day control of the Ministry of Finance. Sir, I am sure the hon. Member will appreciate that it is not possible; it is also not desirable that the Ministry of Finance from New Delhi attempts to run all the banks, all over the country. It is a totally impractical way of doing it. That is why, the Government is moving in a direction where we must let the Banks have their heads; we must let them operate properly as they commercially decide in their wisdom.

Thereafter, if there is any faltering, or, anything comes up that is not satisfactory, then, of course, the Ministry of Finance will step in. But, as to when they take a particular decision in accordance with the advice of the Ministry of Finance, I really very much like to leave it to the banks to judge, as purely a commercial decision.

SHRI B. J. PANDA: Sir, the hon. Minister has pointed out the limitations of giving a better differential to PLR for exports because of the WTO limitations. But the fact remains that PLR itself is very high in India. The hon. Minister has also pointed out the conflicting requirements that people who make savings, desire higher interest rates. But, then, again this is relative to inflation, which has fallen quite dramatically in the country, in the last few years. On the other hand, because of a high PLR, our economy is getting seriously affected. This was partly being ameliorated because the rupee used to continuously slide. But, now, there is a double problem for the Indian economy. The Interest rates remain relatively high and the rupee has now started hardening.

Sir, what is the crux of the problem? The crux of the problem is that the Indian financial system has certain inefficiencies, so the banks require

a higher spread than what is normal in international norms. The difference between their cost of borrowings and rate of lending is very high in India. Would the hon. Minister please tell us as to what measures are being contemplated to make the system more efficient so that the banks do not need such a high spread?

SHRI JASWANT SINGH: Sir, I personally find it difficult to disagree with the hon. Member on most of the things that he has mentioned. I am the first, and I have often shared this view in the House also, that the transactional costs of our banking system are far too high, and I have no difficulty in saying that the transactional costs are particularly high in respect of the public sector banks. So, the private banks recognising competition are now coming down. For this complex triad—if I might put it—of exchange rate of the rupee, inflation and the interest rate regime in the country, there is no perfect answer. It is not an easy regime to manage in the case of a continental-sized economy, that is, India. We are not a small nation. It is a continental-sized economy. In terms of purchasing power parity, the country, today, is really ranking at third or fourth place in the world. Now, what is the ideal regime? There is no ideal world. I wish the world were, as it ought to be. But it is not. it is as it is, and, we have to deal with the world as it is, and, in which case I cannot, in all sincerity, recommend to the Governor, Reserve Bank of India, "Please bring the interest rate down further." In a purely economic discussion, economists might well be able to argue that forcefully. They would equally forcefully argue the other. President Truman once said, "Please give me an economist who has got only one hand". If you ask an economist, he will say, 'on the one hand' and 'on the other hand". I do not want "on the one hand, and, on the other hand" answer. When I take a decision, I have to deal with the world in which I can only have one hand. Because it is my head which is on the chopper. And, I think, at the present moment, we are managing a reasonable regime between these three factors which we have to balance. The PLR is high. Yes. In Japan, the interest rate is zero per cant. So, an exporter will perhaps get credit for export if he wishes to. I am not sure whether may figures are correct, but you could well get a credit at 0.50 or 0.75 per cent, or the bank... You want to ask something else?

SHRI B. J. PANDA: Sir, I just wanted to ask about the spread because the interest rate, I agree ...(*Interruptions*)...

MR. CHAIRMAN : Mr. Panda, please take your seat. Next question.

396. [The questioners (SHRI GAYA SINGH, SHRI V. V. RAGHAVAN) were absent. For answer *vide* page 36 *infra*.]

397. [The questioner (SHRI A. VIJAYA RAGHAVAN) was absent. For answer *vide* page 37 *infra*.]

398. [The questioner (SHRI K. RAHMAN KHAN) was absent. For answer *vide* page 38 *infra*.]

Merger of associate banks of SBI

*399. SHRI YADLAPATI VENKAT RAO: Will the Minister of FINANCE be pleased to state:

(a) whether Government are considering the merger of seven associate banks of State Bank of India;

(b) if so, the names of associate banks to be merged with State Bank of India; and

(c) whether this merger will result in efficient working of banks?

THE FINANCE MINISTER (SHRI JASWANT SINGH): (a) No Sir.

(b) and (c) Do not arise.

SHRI YADLAPATI VENKAT RAO: Mr. Chairman, Sir, my question relates to the merger of the associate banks with the State Bank of India. For effective functioning of the banks, merger is necessary. Nowadays, the non-performing assets of the banks are increasing. The banks are becoming weak. I would like the hon. Minister to reconsider the proposal of merger of the associate banks with the State Bank of India.

SHRI JASWANT SINGH: Sir, what the hon. Member is suggesting is that we should 'reconsider' the merger. At the present moment, there is no such proposal. So, I cannot 'reconsider' a proposal that does not exist. But, if you want to suggest that we should consider such a merger, then I might be able to answer in the affirmative because theoretically, I am personally of the view that we do, for the sake of efficiency, need to look again at the associate banks of the State Bank of India and whether greater efficiency would be achieved by their merger with the parent bank, which is the State Bank itself. But, my hands are bound. As the hon.